



Ontario Commission des  
Securities valeurs mobilières  
Commission de l'Ontario

P.O. Box 55, 19<sup>th</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

CP 55, 19<sup>e</sup> étage  
20, rue queen ouest  
Toronto ON M5H 3S8

---

**IN THE MATTER OF THE *SECURITIES ACT*  
R.S.O. 1990, c. S.5, AS AMENDED**

and

**COVENTREE INC.,  
GEOFFREY CORNISH and DEAN TAI**

**STATEMENT OF ALLEGATIONS**

Staff of the Ontario Securities Commission (the “Commission”) make the following allegations:

**I. Overview**

1. On August 13, 2007, the \$35 billion Canadian non-bank sponsored asset-backed commercial paper (“ABCP”) market collapsed, leaving investors holding illiquid investments that they could neither sell nor redeem. The collapse of the non-bank sponsored ABCP market (also referred to as the third-party ABCP market) sent shock waves through Canada’s financial markets.
2. Coventree Inc. (“Coventree”) was the largest sponsor of third-party ABCP in Canada. Coventree-sponsored ABCP made up 46 percent of the third-party ABCP market in Canada.
3. Coventree issued ABCP through separate legal entities that it created which were known as conduits. Coventree-sponsored conduits, in turn, sold ABCP in the prospectus-exempt market through investment dealers. ABCP investors included Crown corporations, pension funds, financial institutions, business corporations and

individual retail investors. The Coventree operations and activities described below were conducted either by Coventree or its subsidiaries.

4. Third-party sponsored ABCP was a complex investment product. Little information was available about its underlying assets and it was sold in an exempt market which lacked transparency. As a result, investors purchased third-party ABCP based on the identity of the sponsor coupled with the approved credit ratings provided by Dominion Bond Rating Service Limited (“DBRS”), an approved credit rating agency.
5. There are four primary allegations against Coventree and related allegations against its President, Geoffrey Cornish (“Cornish”) and its former Chief Executive Officer (“CEO”), Dean Tai (“Tai”):
  - (a) Coventree failed to make full, true and plain disclosure in its prospectus by failing to disclose the fact that DBRS had adopted more restrictive credit rating criteria for ABCP in November 2006;
  - (b) Coventree failed to meet its continuous disclosure obligations by failing to disclose that DBRS’s decision in January 2007 to change its credit rating methodology resulted in a material change to Coventree’s business or operations;
  - (c) Coventree made misleading statements in April 2007 by telling the market that the total US subprime exposure in its sponsored conduits was 7.4 percent, but failing to provide investors with a breakdown of that exposure by conduit and ABCP note series. The exposure was higher than 15 percent in three conduits, and higher than 40 percent in one note series;
  - (d) Coventree failed to meet its continuous disclosure obligations by failing to disclose liquidity and liquidity-related events and the risk of a market disruption in the days leading up to the market disruption on August 13, 2007.

## II. The Respondents

6. Coventree was incorporated under the *Business Corporations Act*, R.S.O. 1990, c. B-16 (the “BCA”) in 1998 as Coventree Capital Group Inc. and changed its name to Coventree Inc. effective October 6, 2006. Its registered office is in Toronto, Ontario. Coventree became a reporting issuer within the meaning of the *Securities Act*, R.S.O. 1990, c. S.5 (the “Act”) following an initial public offering in November 2006. Its shares traded on the Toronto Stock Exchange, under the symbol COF and were thinly traded at all material times.
7. Coventree Capital Inc., a subsidiary of Coventree which was commonly known as the Capital Markets Business Unit of Coventree, was registered with the Commission as a limited market dealer from October 16, 2006 to December 31, 2008.
8. Cornish was the President and a director of Coventree at all material times. In addition, Cornish was a member of Coventree’s disclosure committee and a member of Coventree’s strategic council. Cornish is also a control person of Coventree within the meaning of the Act.
9. Tai was the CEO and a director of Coventree at all material times. In addition, Tai was a member of Coventree's disclosure committee and a member of Coventree's strategic council. Tai is also a control person of Coventree within the meaning of the Act.

### Other Relevant Entities

10. Coventree and its subsidiary, Nereus, sponsored ten conduits: Apollo Trust, Aurora Trust, Comet Trust, Gemini Trust, Planet Trust, Rocket Trust, Slate Trust, Venus Trust, Structured Investment Trust III (Nereus) and Structured Asset Trust (Nereus). These conduits are referred to collectively as Coventree-sponsored conduits.

11. The Coventree-sponsored conduits issued ABCP. Coventree structured each of its conduits as flow-through trusts so that the trusts were legally separate entities. However, Coventree carried out all of the business functions of the conduits, through agreements with the conduit trustees and others.
12. DBRS is a privately-owned independent credit rating organization. DBRS was Coventree's sole supplier of essential rating services.
13. Coventree-sponsored conduits sold ABCP to investors through investment dealers including: National Bank Financial ("NBF"), Scotia Capital Inc. ("Scotia"), CIBC World Markets Inc. ("CIBC"), RBC Dominion Securities Inc. ("RBC"), Deutsche Bank Securities Limited ("DBSL"), HSBC Bank Canada ("HSBC"), Laurentian Bank Securities Inc. ("Laurentian") and BNP Paribas (Canada) ("BNP"). This group was collectively known as the "dealer syndicate".

### **III. Background Information**

#### **A. Asset-Backed Commercial Paper**

14. Coventree-sponsored ABCP was a short-term debt instrument backed by a pool of underlying assets, with typical maturities of 30 to 90 days. Coventree-sponsored ABCP offered a yield slightly better than the yield on short-term government issued debt instruments.
15. Coventree carried out the administration of the assets, was responsible for asset selection and for the arrangement of the sale of the ABCP notes. The conduits could exist indefinitely, and financial assets could be added to or removed from the conduits from time to time.
16. Due to the long term horizon of the underlying assets and the short-term nature of ABCP notes, there was an inherent timing mismatch between the cash flowing from the underlying assets and the cash needed to repay maturing ABCP notes. For many years, the Coventree-sponsored conduits successfully met their maturity

obligations by selling newly issued ABCP, the proceeds of which were used to pay maturing ABCP.

17. To safeguard against difficulty meeting maturity obligations, ABCP was supported by liquidity agreements with liquidity providers which provided credit lines where certain conditions were met. In general, there were two main types of liquidity facilities: (1) General Market Disruption (“GMD”) and (2) Global-style. GMD liquidity was also called “Canadian-style” liquidity since it was only available in the Canadian ABCP market. The Canadian-style liquidity facilities were more restrictive in nature than the Global-style liquidity facilities. Canadian-style liquidity facilities required specified “general market disruption” events and a credit rating affirmation before liquidity was provided to the affected conduit. By contrast, Global-style liquidity facilities had no similar conditions before payment was required.
18. Liquidity agreements were subject to confidentiality provisions. Many details of the pre-conditions required for liquidity support, including the definition of a “general market disruption event”, were not known to the public, investors or to the distributors of ABCP who were not also liquidity providers.
19. As of September 2005, ABCP distributed in Canada was exempt from the requirement to file a prospectus under the short-term debt exemption set out in section 2.35 of National Instrument 45-106 – *Prospectus and Registration Exemptions*. (“NI 45-106”). Section 2.35 provided that no prospectus was required where the commercial paper being traded had an “approved credit rating” from an “approved credit rating organization”.
20. DBRS was the sole approved credit rating organization which rated third-party ABCP that contained Canadian-style liquidity facilities.

**B. Third-Party ABCP**

21. Third-Party ABCP was first issued in Canada in or around 2000.

22. Historically, the underlying assets of conduits issuing ABCP consisted of traditional assets such as consumer loans, credit card receivables and residential mortgages. Over time Coventree began to acquire complex synthetic assets such as collateralized debt obligations (“CDO”) for its sponsored conduits. By 2007, the majority of the assets underlying third-party ABCP consisted of non-traditional assets.
23. The assets held in traditional securitization conduits were a pool of cash-flow producing assets such as credit cards, equipment loans and leases, auto loans and leases, residential and commercial mortgages, corporate loans, trade receivables, insurance-backed loans, personal lines of credit and other cash-flow producing asset classes. In a traditional securitization, the originator would typically service and manage the underlying assets.
24. The assets held in credit arbitrage securitization conduits (or structured financial asset/CDO portfolios) were based on derivative concepts that were designed to transfer risk from one financial institution to another. Included in the credit arbitrage category were CDOs and asset backed securities (including residential mortgage backed securities and commercial mortgage backed securities). Coventree pioneered the structuring and purchase of credit arbitrage securitizations by ABCP conduits in Canada.
25. Certain credit arbitrage assets were leveraged and the conduit holding these leveraged assets could be required to post additional collateral if certain thresholds were met. The thresholds for posting additional collateral were set by the parties to the original transaction structuring the asset.
26. Coventree’s conduits were either traditional securitization conduits, credit arbitrage conduits or hybrid conduits (including traditional assets and structured financial assets).
27. Coventree-sponsored ABCP was issued by a series of notes, the most common being Series “A” Notes and Series “E” Notes. The “A” Notes were supported by

the Canadian-style liquidity facilities. The “E” Notes were not supported by liquidity facilities. Instead, “E” Notes could be extended up to 364 days after the original maturity date if certain conditions were met, typically if there was a general market disruption.

28. An ABCP investor earned interest on its investment, which was often described in terms of a basis point “spread” (“bps”) above the Canadian Deposit Offering Rate (“CDOR”). Generally, the interest rate on all Coventree conduit A notes was the same for each daily offering of ABCP; similarly, all E notes had the same interest rate. There were different interest rates each day for different maturity lengths of the two series of ABCP. In ordinary market conditions, Coventree’s A Notes were priced at CDOR plus two to four bps and its E notes were priced at CDOR plus 11 to 13 bps for 30 day maturities.
29. Coventree provided limited information regarding the composition of the underlying pool of assets in conduits issuing ABCP. The general asset classes were the only information publicly disclosed. There was no disclosure of the specific assets held in the conduits.

### **C. Coventree’s Revenues**

30. Coventree generated the following revenue from its conduits:
  - (a) for traditional securitization assets, a structuring fee and program administration fees (being a percentage of either fundings outstanding or the value of assets purchased by the conduits). The program fees were paid monthly or quarterly throughout the life of the assets purchased by the conduits; and
  - (b) for credit arbitrage assets, a spread between the return on the purchased assets and the conduit’s cost of funds.
31. For traditional securitizations, Coventree’s program fees were paid from cash flows received from the assets, after ABCP investors and swap counterparties had been

paid. For credit arbitrage securitizations, Coventree was paid all amounts remaining after payment of ABCP investors, swap counterparties, trustee fees, rating agency fees, ABCP dealer fees, and fees of other service providers.

**D. The Distribution of Third-Party ABCP**

32. Coventree-sponsored ABCP was distributed to investors through the dealer syndicate group. One member of the dealer syndicate was appointed lead dealer. The lead dealer was responsible for the direction and supervision of the distribution of the third-party ABCP by the dealer syndicate. Some of the lead dealer's daily duties included the allocation of ABCP notes to dealer syndicate members and setting the yield in consultation with Coventree and other dealers.
33. The dealer syndicate members maintained trading lines, up to a certain credit limit, for third-party ABCP to provide a market making function. Dealer syndicate members would typically purchase third-party ABCP that was not sold at the end of a trading day. These positions were intended to be held on a short-term basis, typically overnight, until the notes could be sold to investors. Further, dealer syndicate members purchased third-party ABCP from clients in the secondary market.

**E. The Third-Party ABCP Market**

34. Third-party ABCP traded in a dealer market, also known as an over-the-counter ("OTC") market. Unlike an auction market or exchange, the OTC market for third-party ABCP was not fully transparent to investors. Without a centralized quotation system and/or a centralized repository containing continuous disclosure information, investors had to rely mainly upon the dealer syndicate for information relating to issues such as pricing, market depth and market volume.
35. In its prospectus, Coventree acknowledged that "[t]his lack of information results in increased reliance being placed on the conduit sponsor."

36. The primary information readily, consistently and uniformly disclosed to investors was the yield and the credit rating of third-party ABCP.

**F. The Market Freeze**

37. On August 13, 2007, certain third-party ABCP conduits including the Coventree and Nereus conduits were unable to sell new ABCP to fund the repayment of maturing ABCP. Notwithstanding this funding difficulty, many of the conduits' liquidity providers did not agree that the conditions for liquidity funding had occurred and refused to provide liquidity to the affected conduits.
38. In light of the liquidity crisis, on August 16, 2007, a consortium representing banks, asset providers and major ABCP holders, agreed to take steps to establish normal operations in the ABCP market. This agreement became known as the Montreal Proposal.
39. As of August 13, 2007, the Canadian third-party ABCP market totalled approximately \$35 billion, with ABCP issued by Coventree and Nereus conduits representing approximately 46% of the value of the third-party ABCP market.
40. A Pan-Canadian Investors Committee, including investors who were signatories to the Montreal Proposal plus other significant holders was established to oversee the orderly restructuring of third-party ABCP. It ultimately put forward the Plan of Compromise and Arrangement ("the Plan"), which was implemented on January 21, 2009.
41. Pursuant to the Plan, holders of the eligible third-party ABCP had their short-term notes exchanged for longer term notes to match more closely the maturity dates of the underlying assets.

#### **IV. Allegations**

##### **A. Prospectus Disclosure**

42. Coventree had an obligation under section 56 of the Act to provide full, true and plain disclosure in its prospectus of all material facts relating to the Coventree securities that it proposed to distribute.
43. In addition, Coventree's CEO, CFO and any two of its directors, on behalf of the board of directors were required under section 58 of the Act to certify that the prospectus contained full, true and plain disclosure.
44. Coventree filed its preliminary prospectus with the Commission on October 18, 2006 and filed its final prospectus (dated November 15, 2006) with the Commission on November 17, 2006. Its initial public offering consisted of a secondary offering of 22.81 percent of the then-issued and outstanding common shares held by certain shareholders of the company.
45. Cornish and Tai certified the prospectus as a director and CEO, respectively.
46. Coventree's final prospectus identified material risk factors relating to the business of Coventree, including that:
  - (a) if a disruption in the ABCP market occurred and there was a cessation or fundamental adverse shift in the liquidity of the ABCP market, Coventree-sponsored conduits would be exposed to a demand for payment well in excess of Coventree's cash reserves. In its prospectus, Coventree acknowledged that "[a]lthough Coventree has no legal obligation to fund the conduits to buy back ABCP from investors in the event of a disruption, Coventree's reputation in the industry and ongoing ability to access the capital markets could be severely adversely impacted if it did not or could not do so.";

- (b) Coventree was heavily dependent on a sole supplier, DBRS, to provide credit rating services for the ABCP issued by Coventree-sponsored conduits;
- (c) Coventree relied on a small number of investors to purchase a relatively high percentage of the ABCP issued by its conduits. In particular, a substantial minority percentage of the ABCP issued by Coventree-sponsored conduits was purchased by the Caisse de dépôt et placement du Québec (“CDPQ”) which also held a minority interest in Coventree’s equity;
- (d) ABCP investors relied on Coventree because they were not provided with financial information about the assets underlying the conduits;
- (e) Coventree was exposed to basis risk, being the difference (or spread) between the CDOR rate and Coventree’s ABCP interest rates;
- (f) the assets underlying the ABCP could perform at less than expected levels, such that cash flow generated by the assets would be insufficient to meet the conduit’s outstanding obligations, including to its ABCP investors;
- (g) a default could occur by any counterparty to the Coventree-sponsored conduits’ liquidity agreements, swaps, or other credit-related derivatives;
- (h) the supply of ABCP could exceed demand from investors in Canada, given the substantial growth in the ABCP market and given the possibility of investors moving their money to other money market investments;
- (i) there was a high degree of competition in the markets for Coventree’s services; and
- (j) negative press or rumours regarding any ABCP industry participant could adversely affect the market and prevent the Coventree-sponsored conduits from re-issuing or rolling their commercial paper (ABCP).

47. Coventree did not disclose in its final prospectus that on November 10, 2006, DBRS had advised Coventree that, effective immediately, DBRS was taking a more restrictive approach to approving new structured financial asset-backed (“SFA”) transactions (which Coventree described as credit arbitrage transactions) for ABCP conduits. DBRS had advised Coventree of this fact by email five days before Coventree filed its final prospectus with the OSC.
48. Coventree’s final prospectus contained the same language about DBRS as the preliminary prospectus.
49. As discussed above, the ABCP issued by the conduits had to have an approved credit rating from an approved credit rating organization to qualify for the prospectus exemption contained in section 2.35(2) of NI 45-106.
50. All Coventree-sponsored ABCP had approved credit ratings from DBRS. No other credit rating organization was willing to provide those services. Coventree was therefore wholly dependent on DBRS as its sole supplier of credit rating services, a fact which was disclosed in Coventree’s prospectus.
51. The final prospectus did not disclose that approximately 80 percent of Coventree’s revenues were derived from credit arbitrage transactions.
52. Coventree’s revenues were substantially derived from establishing, operating and administering securitization conduits. In the prospectus, Coventree described itself as “a niche investment bank specializing in structured finance using securitization-based financing technology”. Coventree stated that it was also beginning to focus on an expanded vision of becoming “a financial services company focused on niches”. This expanded corporate objective was in the early planning stage and the prospectus stated that there “is no assurance that all, or any, of current Coventree’s growth experiments will be successful”. The growth experiments had not yielded revenue when the final prospectus was filed, nor did they generate revenue subsequently.

53. The November 10, 2006 notification from DBRS was a material change for Coventree and, in any event, a material fact to Coventree.
54. Each of Cornish and Tai knew, or ought to have known, of the November 10, 2006 notice from DBRS when they certified that the final prospectus contained full, true and plain disclosure of all material facts.
55. Contrary to section 56 of the Act, Coventree failed to provide full, true and plain disclosure of all material facts relating to the Coventree securities that it proposed to distribute. In particular, the fact that on November 10, 2006, DBRS had advised Coventree that, effective immediately, DBRS was taking a more restrictive approach to approving new SFA transactions for ABCP conduits.
56. Each of Cornish and Tai being directors and officers of Coventree authorized, permitted or acquiesced in Coventree's failure to provide full, true and plain disclosure of all material facts in its prospectus contrary to section 129.2 of the Act.

**B. Impact of the DBRS Change in Rating Criteria**

57. As a reporting issuer, Coventree had continuous disclosure obligations and, in particular, where a material change occurred in Coventree's business, operations or capital it was required under section 75 of the Act to issue a press release forthwith.
58. When Coventree went public, it formed a disclosure committee that included Cornish and Tai. The disclosure committee was responsible for ensuring that all securities regulatory disclosure requirements were met and for overseeing the company's disclosure practices. Coventree's disclosure policy required the disclosure committee to meet "as conditions dictate, and at least quarterly" and to keep minutes of its meetings.
59. Coventree also had a strategic council that included Cornish and Tai. The strategic council was formed in the spring of 2007 and was Coventree's senior decision-making team. The members of the disclosure committee were represented on the strategic council.

60. On January 19, 2007, DBRS issued a press release announcing changes to its rating methodology for arbitrage-type transactions entered into by commercial paper issuers and funded by ABCP. The press release detailed specific new rating criteria, including that SFA transactions were required to be supported by Global-style liquidity.
61. The assets in the Coventree-sponsored conduits were not supported by Global-style liquidity, and Global-style liquidity was not available to Coventree. Consequently, Coventree experienced a change in its business or operations as it was no longer able to purchase credit arbitrage assets for its conduits because a credit rating from DBRS was required in order to continue to qualify for prospectus exemptions for the ABCP under section 2.35 of NI 45-106. DBRS was the sole supplier of essential credit rating services to Coventree.
62. As previously stated, Coventree's only business was related to securitization conduits. Approximately 80 percent of Coventree's revenues were derived from credit arbitrage transactions and its ongoing operations were substantially funded from this revenue source. Coventree had not disclosed this in either its prospectus or subsequently filed financial statements.
63. Since Coventree had not disclosed the fact that a substantial majority of its revenues were derived from credit arbitrage transactions, the market could not appreciate the change in DBRS rating criteria resulted in a change to Coventree's business or operations without elaboration by Coventree.
64. Each of Cornish and Tai knew, or ought to have known, that the change in DBRS rating criteria resulted in a change to Coventree's business or operations, but refused or failed to make disclosure.
65. On each day between January 19, 2007 and August 13, 2007, Coventree failed to comply with its continuous disclosure obligations contained in section 75(1) of the Act by failing to issue and file a news release disclosing the nature and substance of

the material change namely, that the change in DBRS rating criteria resulted in a change to Coventree's business or operations.

66. On each day between January 19, 2007 and August 13, 2007, each of Cornish and Tai, being directors and officers of Coventree, authorized, permitted or acquiesced in Coventree's failures to comply with its continuous disclosure obligations contrary to section 129.2 of the Act.
67. On each day between January 19, 2007 and August 13, 2007, Coventree failed to file a report of a material change, namely that the change in DBRS rating criteria resulted in a change to Coventree's business or operations, contrary to section 75(2) of the Act.
68. On each day between January 19, 2007 and August 13, 2007, each of Cornish and Tai, being directors and officers of Coventree, failed to file a report of a material change, namely that the change in DBRS rating criteria resulted in a change to Coventree's business or operations, contrary to section 75(2) of the Act.
69. On each day between January 19, 2007 and August 13, 2007, each of Cornish and Tai, being directors and officers of Coventree, authorized, permitted or acquiesced in Coventree's failures to file a report of a material change, contrary to section 129.2 of the Act.

**C. Misleading Statement**

70. In early 2007, market participants became increasingly concerned about assets with US subprime exposure, including those underlying the ABCP. In this environment, Coventree gave a presentation "Coventree Investor Update" to a number of ABCP dealers and investors on April 25, 2007 in Toronto and gave the same presentation on April 26, 2007 in Montreal. In the portion of the presentation called "Demystifying the Subprime Market", Coventree told dealers and investors that the total US subprime exposure in its conduits was 7.4 percent but failed to provide a detailed breakdown by conduit and note series.

71. The US subprime exposure varied by conduit and note series and exceeded 15 percent in three conduits, and 40 percent in one note series. Coventree knew or ought to have known that the US subprime exposure in three of its ABCP note series was significantly higher than 7.4 percent.
72. By advising investors that there was 7.4 percent exposure to US subprime in its conduits, while failing to tell those same investors that the US subprime exposure was significantly higher than 7.4 percent in three ABCP note series, Coventree made a misleading statement to investors and dealers.
73. On each of April 25 2007 and April 26, 2007, Coventree made a statement contrary to section 126.2(1) of the Act that it knew or reasonably ought to have known, was in a material respect and at the time and in light of the circumstances under which it was made, misleading (namely that Coventree's total US subprime exposure was 7.4 percent), and did not state a fact that was required to be stated or necessary to make the statement not misleading (namely that the US subprime was significantly higher than 7.4 percent in three of its ABCP note series). This misleading statement would reasonably be expected to have a significant effect on the market price or value of at least three Coventree-sponsored ABCP note series.
74. On July 24, 2007, Coventree advised the dealer syndicate of the US subprime exposure per conduit and note series as of June 28, 2007 but did not generally disclose the facts required to be stated or necessary to make its April statements not misleading.

**D. Liquidity and Liquidity-Related Issues Prior to August 13, 2007**

75. As a reporting issuer, Coventree had continuous disclosure obligations and, in particular, where a material change occurred in Coventree's business, operations or capital it was required under section 75 of the Act to issue a press release forthwith.
76. In January 2007, Coventree put its US subprime transactions on its internal watchlist.

77. Beginning in February 2007, Coventree began making disclosure to some dealers and ABCP investors about the US subprime exposure in Coventree's sponsored conduits. Coventree's dealer syndicate members and a few ABCP investors began making increasingly detailed inquiries about the assets underlying Coventree's ABCP, and by July 2007, Coventree's disclosure to some dealers and ABCP investors became more frequent and detailed.
78. Two of these disclosures by Coventree were: (a) a July 11, 2007 email from Coventree to it a member of the dealer syndicate attaching a breakdown of the US subprime exposure in its conduits, and (b) a July 24, 2007 email from Coventree to its dealer syndicate attaching a similar breakdown.
79. The dealer sent the July 11, 2007 email to CDPQ on July 20, 2007. In the first half of 2007, CDPQ held up to 50 percent of Coventree-sponsored ABCP. In response to the facts disclosed in the July 11 email, on July 23, 2007 CDPQ began substantially reducing its holdings of Coventree ABCP with US subprime exposure. CDPQ's reduction of ABCP with US subprime exposure was of such a concern to Coventree that Coventree took steps to reallocate US subprime assets among its conduits to satisfy CDPQ. In doing so, Coventree did not take into account the interests of other ABCP investors.
80. On July 24, 2007, Coventree sent an email to the dealer syndicate with the following table summarizing the Coventree-sponsored conduits' US subprime exposure per conduit and note series as of June 28, 2007.

Conduit	Series A	Series E	Total ABCP	FRNs	Total ABCP and FRNs
Aurora Trust	0%	8%	3%	2%	3%
<b>Comet Trust</b>	0%	<b>42%</b>	16%	12%	16%
<b>Planet Trust</b>	<b>26%</b>	3%	17%	0%	15%
<b>Slate Trust</b>	0%	<b>16%</b>	13%	0%	13%
Apollo Trust Gemini Trust Rocket Trust Venus Trust	0%	0%	0%	0%	0%
SAT	0%	0%	0%	0%	0%
SIT III	1%	0%	1%	0%	1%
<b>TOTAL</b>	<b>3%</b>	<b>6%</b>	<b>5%</b>	<b>2%</b>	<b>4%</b>

81. After Coventree sent the July 24, 2007 email to its dealer syndicate, certain dealers reduced or temporarily eliminated their market-making lines and adjusted their inventory holdings of Coventree-sponsored ABCP, in order to minimize their exposure to losses in the third-party ABCP market.
82. On July 25, 2007, DBRS advised Coventree that it was getting daily calls on US subprime exposure in Canadian conduits and stated that Coventree's funding capacity might be affected.
83. By early August 2007, a number of material risks that Coventree had identified in its prospectus (see paragraph 46 above) had occurred:
  - (a) Coventree was experiencing a sharp and substantial loss of demand for its ABCP products, which Coventree expected to continue. The loss of demand manifested itself in several ways, including that:
    - by July 23, 2007, Coventree's dealers were reporting difficulty selling Coventree ABCP, especially ABCP with US subprime exposure;
    - beginning on July 26, 2007 other members of Coventree's dealer syndicate had substantially reduced their participation in the market for Coventree-sponsored ABCP (by turning back unsold newly issued ABCP to the lead dealer, by declining to bid on Coventree's ABCP in the secondary market and by reducing their market making lines);
    - on July 27, 2007, one of the dealers had resigned from Coventree's dealer syndicate;
    - by July 27, 2007, Coventree was aware that CDPQ was reducing its holdings in Coventree-sponsored conduits with US subprime exposure and if it continued to do so it would cause a market disruption; and
    - by August 1, 2007, spreads on Coventree-sponsored E notes were widening above 25 basis points over CDOR, which was well beyond historical levels, and the market conditions were adversely affecting Coventree's revenue. The spreads on A notes had also widened above 10 bps.

- (b) by July 31, 2007, Coventree had sold assets in its conduits to accumulate funds so that it would be able to honour anticipated collateral calls. Coventree was doing daily calculations to determine whether a collateral call would occur.
- (c) by August 7, 2007, Coventree was unable to purchase new assets from its asset suppliers and ultimately advised its asset suppliers that it did not know when it would be able to resume offering financing in the ordinary course. At that time, Coventree acknowledged that “the spread widening in the Canadian market [is] beginning to adversely affect Coventree’s revenues and will adversely affect future revenues of Coventree if those conditions persist.”

The events described in subparagraphs (a) to (c) above, individually and collectively, constituted a material change in Coventree's business or operations.

- 84. Coventree’s management convened an emergency board of directors meeting on August 1, 2007 to discuss deteriorating market conditions. After being briefed, the Board instructed Coventree’s management to draft a press release about liquidity issues in the third-party ABCP market.
- 85. On August 2, 2007, Coventree management circulated a draft press release to the Coventree Board, together with a recommendation by Coventree management that the press release not be issued, but that it be held for future release. Cornish stated in the August 1, 2007 draft press release that “this spread widening has decreased the current revenues of Coventree and, if it were to continue, will result in a material decrease in the future revenues of the Company and therefore its profitability”.
- 86. The decision by Coventree not to disclose the material change was substantially influenced by its perception that disclosure would have an adverse market impact.

87. On July 25, 2007, Coventree had an internal meeting to discuss market disruption procedures. By July 26, 2007, dealers had been asking Coventree for details of liquidity agreements and the liquidity drawdown protocols relating to the ABCP.
88. After August 1, 2007, the liquidity in the market for Coventree's ABCP continued to deteriorate, a clear indication that demand for Coventree's ABCP was disappearing, but a press release was not issued until after the third-party ABCP market froze on August 13, 2007.
89. On August 6, 2007, Coventree took comprehensive steps to prepare for a market disruption, including meeting with their counsel to prepare the necessary notices and notifying DBRS. The risk of a market disruption was also a material change requiring disclosure.
90. Cornish and Tai were aware of the liquidity and liquidity-related issues and the risk of a market disruption and, notwithstanding their roles as members of the disclosure committee, the strategic council and directors and officers of Coventree, refused or failed to make disclosure.
91. On each day between August 1, 2007 and August 13, 2007, Coventree failed to comply with its continuous disclosure obligations contained in section 75(1) of the Act by failing to issue and file a news release disclosing the nature and substance of the material change, namely the liquidity and liquidity-related issues and the risk of a market disruption.
92. On each day between August 1, 2007 and August 13, 2007, each of Cornish and Tai, being directors and officers of Coventree, authorized, permitted or acquiesced in Coventree's failures to comply with its continuous disclosure obligations contrary to section 129.2 of the Act.
93. On each day between August 1, 2007 and August 13, 2007, contrary to section 75(2) of the Act, Coventree failed to file a report of a material change, namely the liquidity and liquidity-related issues and the risk of a market disruption.

94. On each day between August 1, 2007 and August 13, 2007, each of Cornish and Tai, being directors and officers of Coventree, authorized, permitted or acquiesced in Coventree's failure to file a report of a material change, contrary to section 129.2 of the Act.

**V. Conduct Contrary to Ontario Securities Law and the Public Interest**

95. Based on the foregoing, Coventree, Cornish and Tai breached the Act and acted in a manner that is contrary to the public interest.
96. Such further and other allegations as Staff may advise and the Commission may permit.

December 7, 2009